

# Arizona State Retirement System Board



## Real Estate Asset Class Review

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# Discussion Items

- ASRS Real Estate Program - Highlights
- Program Developments
- Real Estate Program Snapshot (as of June 30, 2006)
- Signed Commitments Since June 30, 2006
- Real Estate Program Snapshot (anticipated by December 31, 2006)
- ASRS Owner/Occupied Properties

## ASRS Real Estate Program - Highlights

- Represents 6% of ASRS strategic asset allocation policy
- Invests in public and private, core and non-core U.S. and international institutional real estate markets
- Purpose: Achieve attractive risk-adjusted return, enhance diversification of ASRS' investment program
- Return expectation: Provide 100 bps (net of fees) over ASRS actuarial assumed investment rate of return;\* achieve returns (net of fees) in excess of NCREIF Property Index (NPI) + 1%

\*overall program guidance, determination criteria for initiating transactions

# Program Developments

- The Townsend Group was hired in March 2006 as the ASRS Real Estate Consultant.
- Enhancements to the ASRS Real Estate Program were approved by the Board in May 2006.
- ASRS Real Estate Program Implementation Plan was developed. This plan provides the road map for the real estate program for 2006 and 1<sup>st</sup> quarter 2007.
- Over a one-year period ending September 2006, ten (10) real estate mandates have been awarded with commitments totaling approximately \$411 million.

# ASRS RE Program Snapshot as of June 30, 2006

REAL ESTATE INVESTMENTS:	<u>MARKET VALUES*</u>	<u>COMMITTED NOT YET FUNDED</u>	<u>TOTAL FUNDED/COMMITTED</u>	<u>% Portfolio</u>	<u>Policy Allocation</u>
<b>Core - Private</b>					
Hines US Core Office Fund	\$ 19,502,841	\$ -	\$ 19,502,841	7%	Min 40%
<b>Core - Public</b>					
ING/Clarion (Long Only) REIT	\$ 35,383,630	\$ -	\$ 35,383,630		
ING/Clarion (Long/Short) REIT	\$ 22,145,945	\$ -	\$ 22,145,945		
Urdang REIT	\$ 58,302,535	\$ -	\$ 58,302,535		
E5 Portfolio	\$ 35,836,242	\$ -	\$ 35,836,242		
	\$ 151,668,352	\$ -	\$ 151,668,352	56%	Max 20%
<b>Total Core</b>	\$ 171,171,193		\$ 171,171,193		
<b>Non Core - Enhanced Return</b>					
None	\$ -	\$ -	\$ -		
<b>Non Core - High Return</b>					
Rothschild Five Arrows IV	\$ 27,515,655	\$ 46,598,721	\$ 74,114,376		
Tishman Speyer Real Estate Venture VI	\$ 8,195,614	\$ 16,090,530	\$ 24,286,144		
<b>Total Non-Core</b>	\$ 35,711,269	\$ 62,689,251	\$ 98,400,520	37%	Max 60%
<b>Total ASRS Real Estate Portfolio:</b>	\$ 206,882,462	\$ 62,689,251	\$ 269,571,713		
<b>As a % ASRS Market Value of \$25 billion</b>					
	<b>0.83%</b>			<b>1.08%</b>	

\*Market values are as of March 31, 2006 due to the 1 Qtr time lag associated with receiving financial information from private real estate funds.

Note: The current allocation reflects temporary imbalances that will be reduced in the future as the portfolio moves towards full allocation.

The snapshot above excludes ASRS owner/occupied properties.

# Signed Commitments Since June 30, 2006

INVESTMENT MANAGER/FUND	CORE OR NON-CORE	INCEPTION DATE	AMOUNT COMMITTED (In \$Millions)
RREEF Global Opportunities Fund II, LLC	Non-Core	9/22/06	50
Westbrook Real Estate Fund VII, L.P.	Non-Core	9/29/06	40
CIM Urban REIT, LLC	Core	9/30/06	75
<b>Grand Total:</b>			<b>165</b>

# ASRS RE Program Snapshot



## Projected As Of December 31, 2006

REAL ESTATE INVESTMENTS:	MARKET VALUES*	COMMITTED NOT YET FUNDED	TOTAL FUNDED/COMMITTED	% PORTFOLIO	Policy Allocation
<b>Core - Private</b>					
Hines US Core Office Fund:	\$ 19,502,841		\$ 19,502,841		
CIM Urban REIT		\$ 75,000,000	\$ 75,000,000		
Core Allocation (2-3 Mgrs)		\$ 175,000,000	\$ 175,000,000		
	\$ 19,502,841	\$ 250,000,000	\$ 269,502,841	34%	Min 40%
<b>Core - Public</b>					
ING/Clarion (Long Only) REIT	\$ 35,383,630		\$ 35,383,630		
ING/Clarion (Long/Short) REIT	\$ 22,145,945		\$ 22,145,945		
Urdang REIT	\$ 58,302,535		\$ 58,302,535		
E5 Portfolio	\$ 35,836,242		\$ 35,836,242		
Global Active REIT Mandate		\$ 50,000,000	\$ 50,000,000		
	\$ 151,668,352	\$ 50,000,000	\$ 201,668,352	26%	Max 20%
Total Core:	\$ 171,171,193	\$ 300,000,000	\$ 471,171,193		
<b>Non Core - Enhanced Return</b>					
Enhanced Allocation	\$ -	\$ 75,000,000	\$ 75,000,000		
<b>Non Core - High Return</b>					
Rothschild Five Arrows IV	\$ 27,515,655	\$ 46,598,721	\$ 74,114,376		
Tishman Speyer Real Estate Venture VI	\$ 8,195,614	\$ 16,090,530	\$ 24,286,144		
RREEF Global Opportunities Fund II	\$ -	\$ 50,000,000	\$ 50,000,000		
Westbrook Partners Real Estate Fund VII	\$ -	\$ 40,000,000	\$ 40,000,000		
High-Return Allocation (1 Mgr)	\$ -	\$ 55,000,000	\$ 55,000,000		
	\$ 35,711,269	\$ 207,689,251	\$ 243,400,520		
Total Non-Core:	\$ 35,711,269	\$ 282,689,251	\$ 318,400,520	40%	Max 60%
<b>Total ASRS Real Estate Portfolio:</b>	<b>\$ 206,882,462</b>	<b>\$ 582,689,251</b>	<b>\$ 789,571,713</b>		
As a % ASRS Market Value of \$25 billion				3.16%	

\*Market values are as of March 31, 2006 due to the 1 Qtr time lag associated with receiving financial information from private real estate funds.

Note: The current allocation reflects temporary imbalances that will be reduced in the future as the portfolio moves towards full allocation.

The snapshot above excludes ASRS owner/occupied properties.

 New Commitments since June 30, 2006.  
 Anticipated commitments prior to year end 2006

# ASRS Owner/Occupied Properties

	3300 Tower	JV Land	Broadway Proper
<b><u>Physical:</u></b>			
<b>Location</b>	Phoenix	Phoenix	Tucson
<b>Property Type</b>	High Rise Office	Vacant Land	Suburban Office
<b># Stories</b>	26	-----	3
<b>Bldg Sq. Ft.</b>	363,655	-----	52,875
<b>Land Sq. Ft.</b>	224,200	69,531	200,304
<b>Parking Spaces</b>	1,053	-----	253
<b>Occupancy % (6/30/06)</b>	81.2%	-----	74%
<b># Tenants (6/30/06)</b>	34	-----	29
<b><u>Economics:</u></b>			
<b>Property Value (Includes Land Value)</b>	\$23,200,000 (\$64/SF)	\$765,000 (\$22/SF)	\$2,800,000 (\$53/SF)

Source: CB/Richard Ellis

Property values reflect most recent appraisal; current appraisal pending from Cushman Wakefield



# ASRS Owner/Occupied Properties

## **3300 Tower (Phoenix)**

- Increasing occupancy rates. 9/30/05 – 82.6% and 9/30/06 – 86.2%. Seeing significant renter interest in the market.
- Significantly higher rental rates in sub-market and at property over the past twelve months.
- Also seeing much higher tenant improvements costs due to increased construction costs and construction demand. Leasing commissions have been stable.
- Sub-market fundamentals: Positive net absorption of 540,302 square feet since 2<sup>nd</sup> quarter of 2005. Vacancies have declined from 20.3% one year ago to 14.4% at 6/30/06. Average asking lease rates have increased from \$16.71 one year ago to \$19.71 today. An 18% increase.

## **Broadway Proper (Tucson)**

- Suburban Garden Office
- Stable rental rates and tenant improvement costs. However, expecting increasing tenant improvement costs going forward.
- Increasing occupancy rates. 9/30/05 – 70% and 9/30/06 – 76%. Expectation is that office condo development going forward will decline in sub-market.

## **Future Activities Related To ASRS Owner/Occupied Properties**

- Independent real estate appraisals on both of the owner/occupied buildings and the JV land currently being prepared.
- Real Estate Committee will meet in late October to discuss hold/sell status of owner/occupied properties and JV land.